

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

September 21, 2010

Call to Order and Roll Call

The Capital Projects and Bond Oversight Committee met on Tuesday, September 21, 2010, at 1:00 PM, in Room 169 of the Capitol Annex. Senator Bob Leeper, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Bob Leeper, Co-Chair; Representative Susan Westrom, Co-Chair; Senators Tom Buford and Julian M. Carroll; Representatives Steven Rudy and Jim Wayne.

Guests: Sam Ruth, Department of Facilities and Support Services; Katie Smith, Cabinet for Economic Development; Bob Wiseman, University of Kentucky; Charles Bush, Division of Real Property; Sandy Williams, Kentucky Infrastructure Authority; and Tom Howard and Brett Antle, Office of Financial Management.

LRC Staff: Kristi Culpepper, Don Mullis, and Samantha Gange.

Approval of Minutes for August 17, 2010

Representative Rudy made a motion to approve the minutes of the August 17, 2010 meeting. The motion was seconded by Senator Buford and approved by voice vote.

Information Items

Senator Leeper asked Kristi Culpepper, Staff Administrator, to discuss information items. Ms. Culpepper said members' folders contained several information items. The first information item was the Cabinet for Economic Development's annual report on the status of the grants that have been made from Economic Development Bond proceeds. The cabinet is required by statute to update the committee on the jobs that have been created and maintained for each project, and whether the companies have met the wage and salary requirements in the grant agreements.

Senator Leeper asked why the Kenton County Airport Board project was on hold. Katie Smith, Deputy Commissioner, Department of Financial Incentives, Cabinet for Economic Development, said the grant agreement was based on the number of departures for Delta Airlines. Since the agreement, Delta has decreased the number of departures. Ms. Smith said the cabinet is currently in discussions with the Kenton County Airport Board.

Representative Westrom commented on the impact the airport has on the economy in Northern Kentucky.

Ms. Culpepper said the second information item was the Annual Report of Bonds Outstanding from the Office of Financial Management.

The third information item was a report on Estimated Outstanding Debt Associated with Court Facilities Projects, Fiscal Year 2011.

The fourth information item was correspondence sent from the Finance and Administration Cabinet, Department of Facilities and Support Services to all state lessors, asking for a 5 percent reduction in the rental rate of leased space for the Commonwealth.

Senator Leeper asked how many leases have been modified to reduce the state's rental costs. Sam Ruth, Commissioner, Department of Facilities and Support Services, said 521 letters were sent to lessors and 317 responses have been received to date. Of the responses, 234 agreed to the 5 percent reduction, 44 did not agree to the reduction, and 39 were conditional.

In response to a question from Representative Westrom, Mr. Ruth said the conditional letters from lessors varied, some asked for a smaller percentage reduction or wanted to recoup the 5 percent in the next lease renewal.

The fifth information item was a \$21.7 million Energy Savings Performance Contract from the University of Louisville (UL).

The sixth information item was a capital construction report from UL.

Ms. Culpepper said the next three items were related to school bonds: a memo from committee staff regarding information on the volume of school bonds the committee has reviewed in recent years; School Facilities Construction Commission (SFCC) Offers of assistance for the current funding cycle; and a follow-up report on school bonds that include SFCC debt service support.

Ms. Culpepper said the last items of information were the staff and bond market updates. Ms. Culpepper noted two articles in the market update. The first article was from the *Bond Buyer* describing how the notes issued by the Asset/Liability Commission to refinance the Kentucky Teachers Retirement System loans resulted in higher-than-anticipated savings for the state. The second article was from the Louisville *Courier-Journal* related to the conduit bonds used to finance the Louisville Arena.

Representative Wayne said he had concerns regarding the ability of the Louisville Arena Authority to make debt service payments on the bonds and the bonds potentially getting downgraded to junk status. He asked the committee co-chairs to invite representatives of the arena to the October committee meeting.

Senator Buford indicated he would also like representatives of the Louisville Arena Authority to be present at the October committee meeting.

Senator Leeper and Representative Westrom said they would work with committee staff to invite Arena Authority representatives for the October committee meeting.

Report of Unbudgeted Project from the University of Kentucky

Senator Leeper asked Bob Wiseman, Vice President for Facilities Management, University of Kentucky (UK), to report an unbudgeted capital project. Mr. Wiseman said UK is reporting the Renovate Track and Field Facility project to the committee as a new project as a means of changing the funding source on the project. The nature of the project and its scope will not change from the project authorized by the General Assembly in HB 1 (2010-2012 budget). Mr. Wiseman said the lease-purchase financing authorized in the budget is no longer feasible. UK plans to fund the project through a combination of \$7.1 million in private funds from the University of Kentucky Athletic Association (UKAA) and \$6.9 million from restricted funds. The UK Board of Trustees approved this project at its September 14, 2010 board meeting. The project will renovate UK's 30-year-old Shively Track facility, which is used by the university's men's and women's track and cross country teams.

In response to a question from Representative Wayne, Mr. Wiseman said the UKAA will repay the university restricted funds with interest over a period not to exceed five years.

Senator Carroll made a motion to approve the unbudgeted capital project for UK. The motion was seconded by Representative Westrom and approved unanimously by roll call vote.

Lease Reports from the Finance and Administration Cabinet

Next, Senator Leeper asked Charles Bush, Director, Division of Real Property, Finance and Administration Cabinet, to report four items related to leases. Mr. Bush said the first item was a report of a lease modification, amortization of leasehold improvements for the Cabinet for Health and Family Services in Franklin County (PR-1621). The improvements include security, construction of additional staff offices, and to establish a computer training lab at the facility. The cost of the modifications, \$20,697, will be amortized over the remaining lease term (through June 30, 2015). No committee action is required on lease modifications less than \$50,000.

In response to a question from Senator Carroll, Mr. Bush said he would provide committee staff with the monthly rental cost increase.

Mr. Bush said the second item was a new lease exceeding \$100,000 for the Department of Military Affairs (DMA) in Boone County (PR-4951). The annual cost of the lease is \$108,000 through June 30, 2015. The space will be used for a specialized facility that includes office space, vehicle maintenance bays, and access controlled storage space for vehicles. Committee action is required on leases exceeding \$100,000.

Senator Carroll made a motion to approve the new lease for DMA. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

Mr. Bush said the third item was a report of changes in square footage for four state leases for the period April through June 2010. The lease modifications were less than \$50,000 and did not require Committee action.

Mr. Bush said the fourth item was a lease modification/square footage increase exceeding \$50,000 for the Cabinet for Health and Family Services (CHFS) in Boone County (PR-4613). The additional square footage will be used to house additional staff assigned to the facility. The annual rental cost will increase from \$223,156 to \$315,349. Committee action is required on lease modifications exceeding \$50,000.

Representative Wayne asked how the state is able to add additional staff under the current budget situation. Mr. Bush said that CHFS workloads increase as the economy worsens and the space is needed for staff who provide essential services.

Senator Carroll made a motion to approve the lease modification/square footage increase for CHFS. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

Kentucky Infrastructure Authority Grants

Senator Leeper asked Sandy Williams, Financial Analyst, Kentucky Infrastructure Authority to present an item related to grants. Ms. Williams indicated various coal and tobacco development grants authorized by the General Assembly were included in members' folders. Each project was authorized in a budget bill and no further committee action was needed.

New Economic Development Bond Project

Senator Leeper asked Ms. Smith to report an Economic Development Bond (EDB) grant project. Ms. Smith reported an EDB Pool grant in the amount of \$250,000 for the Louisville/Jefferson County Metro Government for the benefit of Dometic Corporation. The grant proceeds will offset the cost of the lease, improvements, and equipping of a

25,000 square foot building in Jefferson County that will serve as its US Operations Corporate Office. Pursuant to the EDB grant, Dometic Corp. will be required to create 90 new, full-time jobs within three years. Additionally, Dometic Corp. will be required to pay the 90 new jobs an average annual salary of \$31,000, excluding benefits.

Representative Rudy made a motion to approve the EDB grant for Dometic Corp. The motion was seconded by Representative Westrom and passed unanimously by roll call vote.

New Bond Issues from the Office of Financial Management

Senator Leeper asked Tom Howard, Executive Director, and Brett Antle, Deputy Director, Office of Financial Management, to present several items related to bonds. Mr. Antle said the first new bond issue was for Murray State University General Receipts Refunding Bonds, 2010 Series A. Proceeds from this tax-exempt bond issue will refund all the university's outstanding Housing and Dining Bonds, which includes Series M, N, O, P, and Q. The par amount of the bonds is \$20,565,000.

The second new bond issue was for Northern Kentucky University General Receipts Refunding Bonds, 2010 Series B. Proceeds from this tax-exempt bond issue will refund the university's outstanding Housing Certificates of Participation, Series 2002. The par amount of the bonds is \$12,490,000.

The third new bond issue was for the University of Kentucky General Receipts Refunding Bonds, 2010 Series B. Proceeds from this tax-exempt bond issue will refund the university's outstanding Series S and T Consolidated Education Building Revenue Bonds. The par amount of the bonds is \$32,955,000.

Senator Carroll made a motion to approve the three new bond issues for Murray State, Northern Kentucky, and the University of Kentucky. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

Follow-up Reports for Previously Approved Bond Issues

Mr. Antle said the first follow-up report was for the Kentucky Asset/Liability Commission (ALCo) Funding Notes, 2010 General Fund First Series (Taxable). Proceeds from this bond issue will reimburse Kentucky Teachers Retirement System (KTRS) for 100% of the outstanding balances plus accrued interest through the date of settlement on obligations used to fund the KTRS State Medical Insurance Fund during Fiscal Years 2005 to 2010. The bond issue was approved by the committee at the July 2010 meeting.

The second follow-up report was for the Kentucky Housing Corporation (KHC) Single Family Housing Revenue Bonds, 2010 Series B, C, D, and E and 2009 Series C, Subseries C-2. Proceeds from this bond issue will refund outstanding Series 1999 H, 2000 B, 2000 C, 2002 G, 2003 E, 2004 C, 2004 E, 2004 I bonds. The refunding will

generate a savings, convert some variable rate debt to a fixed rate, and improve the tax status on some of the debt. Series D of the new issue is subject to the Alternative Minimum Tax, the other series and subseries are not. The 2009 bonds were approved by the committee at the October 2009 meeting, and the 2010 bonds at the June 2010 meeting. No committee action is needed on follow-up reports.

School Bond Issues

Mr. Antle reported 58 new bond issues with the School Facilities Construction Commission (SFCC) debt service participation for Allen County, Anderson County, Augusta Independent in Bracken County, Ballard County, Ballard County, Barren County, Bath County, Boone County, Calloway County, Campbell County, Casey County, Casey County, Clark County, Corbin Independent in Whitley County, Edmonson County, Elliott County, Eminence Independent in Henry County, Floyd County, Floyd County, Grant County, Graves County, Graves County, Grayson County, Greenup County, Hancock County, Harrison County, Hickman County, Johnson County, Kenton County, Knox County, Laurel County, Lawrence County, Letcher County, Letcher County, Marshall County, Martin County, Mercer County, Metcalfe County, Metcalfe County, Metcalfe County, Montgomery County, Montgomery County, Muhlenberg County, Muhlenberg County, Nelson County, Owsley County, Pike County, Pikeville Independent in Pike County, Raceland Independent in Greenup County, Rowan County, Russell County, Todd County, Todd County, Trimble County, Walton-Verona Independent in Boone County, Warren County, Williamsburg Independent in Whitley County, and Wolfe County.

Senator Leeper asked Ms. Culpepper to report the new local school bond issues. Ms. Culpepper said there were 29 new local school district bond issues with 100 percent local debt support for Bardstown Independent in Nelson County, Bardstown Independent in Nelson County, Barren County, Boone County, Bullitt County, Butler County, Carlisle County, Edmonson County, Elliott County, Fayette County, Fulton County, Grant County, Henderson County, Jackson County, KISTA, Knott County, Lyon County, Madison County, McLean County, Murray Independent in Calloway County, Oldham County, Pike County, Pike County, Pike County, Taylor County, Union County, Union County, Walton-Verona Independent in Boone County, Williamstown Independent in Grant County, and Wolfe County.

With there being no further business, Representative Wayne made a motion to adjourn the meeting. The motion was seconded by Representative Rudy and the meeting adjourned at 1:35 p.m.